

July 20, 1982

To Alan Kay from Bob Stein

Good news! The time and effort spent on a closer look at EB and World Book was well worth it. We now have a much clearer picture of the differences between the two companies and the potential for a much more exciting "deal" than I think we were expecting.

Looking at three main categories - the sales organization and strategy, the existing database and the general orientation of each company - a compelling case can be made for working with EB. Chris Bowman who went with me to Chicago is of the same opinion.

This memo is divided into three sections. The first analyzes and contrasts key aspects of the EB and WB operations. The second describes a proposal EB made to us in Chicago and suggests some points we might include in our proposal to them. The last section tries to put the whole encyclopedia project into a broader perspective.

#### EB and WB

Domestic Sales Organization - EB employs 1500 full-time, professional salesmen. They are a highly trained and managed sales force, working from solid leads supplied by a major marketing effort. EB's domestic sales (not including schools and libraries) are 100,000 sets per year. WB by contrast, relies on 30-60,000 part-time salesmen, mainly teachers and housewives. WB's yearly domestic sales (they wouldn't give us exact figures) are probably about 200,000 sets. Because the EB product is twice as expensive, the actual dollar amount of EB sales is greater.

On the surface the WB numbers look great. However, there is reason to believe that the structure of EB's sales force will be more compatible with the requirements of computer hw/sw sales. To be considered a WB salesman you have to sell only one set during the preceding six month period. This is why their active list can have 30,000 names one month and 40,000 the next, with only 25,000 being repeated. More important, these salesmen are neither highly trained or managed. I have considerable doubt as to whether this somewhat amorphous sales force can be shifted very easily into something as relatively complex as computer sales. Indeed, evidently WB has raised this question themselves, suggesting that they may have to recruit and train a separate sales force. EB on the other hand, does extensive training of its sales force

and believes they can integrate additional training into their structure as needed.

Marketing, Promotion and Advertising - In order to generate leads for its salesmen EB does a prodigious amount of advertising and promotion. In fact EB is the world leader in at least two areas. EB does more shopping mall exhibits than anyone. They are currently designing 6 new traveling exhibits in conjunction with Disney. They are also number one in trade shows and expositions, fielding approximately 2500 booths per year. In addition EB distributes hundreds of millions of mailing stuffers and newspaper and magazine inserts. Pete Rose is their spokesman on TV ads. Also, EB runs the information booth at over 22 theme parks around the country, including Six Flags, Kings Island, Universal Studios Tour, Marineland and Opryland. Marriott's Great America Parks and Sea World will be added soon. At these booths, they give out park information and display Britannica products, soliciting leads whenever possible.

WB does very little advertising or promotion directed at the consumer market. Virtually all promotion dollars are spent on various campaigns aimed at the sales force itself, getting them motivated etc.

International Connection - EB enjoys significant international sales. Wholly owned subsidiaries in Japan, Australia, Canada, Western Europe, Britain, Philippines and Korea sell more than 50,000 sets of EB. Plus, EB is involved in numerous joint ventures which publish encyclopedias in many of the major languages of the world - the French Encyclopédia Universalis (20,000 sets); the Japanese Britannica International (80,000); the Barsa Spanish and Portuguese encyclopedias (60,000); and the Italian Il Modulo (12,000). Under an exclusive agreement with the Chinese government a major Chinese encyclopedia based on EB is currently under development. Although it should not be assumed that EB has complete freedom to sell whatever it wants in every country, the EB-Atari connection could prove to be very valuable in many places, both in terms of international sales of the intelligent encyclopedia and related products and also for the sale of Atari computer products.

WB by contrast, does not have much of an international presence outside of Canada. Operations in Japan were shut down last year.

#### The Existing Database

Our doubts concerning the EB database centered on two factors. First, much of the Macropedia is quite out of date (Van Doren confirmed that over 90% was written between 1969 and 1972).

Second, the combination of difficult language and sheer mass of information makes EB somewhat inaccessible to the average user. Compton's Encyclopedia, which is equivalent to WB in readability and scope is owned by EB and would be available to us, but it is badly outdated, some of the articles going back more than 20 or 30 years. These are definite weaknesses, which in fact would show up more strongly if put online when the content is cut loose from its imposing bindings and has to stand on its own merits. However, in the course of further investigation and discussion it appears that there are several mitigating factors and an alternative way of looking at the situation.

First, EB is currently engaged in an active revision program for both Compton's and EB. Compton's will be overhauled completely by 1987 or 1988; the Macropedia will be thoroughly rewritten over the next 5 years. (The Micropedia is actually quite current.) What this means is that not only will EB and Compton's be spanking new within the next five years, but that presumably we could influence the direction of the revisions where appropriate. Van Doren also suggested that the revision of Compton's could be speeded up if the yearly budget for that revision were increased. Current plans are to spend \$1,000,000 per year for the next five years. Further, upon examination it looks as if the EB yearbooks (general Yearbook, Science and the Future, and the Medical and Health Annual) which are quite comprehensive could, in an online system, be integrated into the whole and make up for deficiencies in the Macropedia while its revision is being completed.

WB is highly regarded as authoritative and understandable. It is currently quite up to date. Its main failing for our purposes is the relatively unsophisticated range of its content. However, added to this, it looks like WB's revision schedule is not sufficient to keep the database up to date. The current schedule calls for the rewriting of only 300 pages per year out of a total of 13,000. It seems that Scott and Fetzer, the vacuum cleaner company which bought World Book is content to work the existing database for all its worth and may not be willing to invest the kind of time and money to keep the product first rate. We believe that WB has cut down its editorial staff recently.

Five years from now when our short term online encyclopedia will be hitting its stride, EB and Compton's will be sparklingly fresh, while WB may very well start to look rather stale.

Putting WB online would undoubtedly be a much easier and straightforward task than dealing with EB and Compton's. Not only is EB a much larger and more complex database, if we decided to use Compton's as well, in order to have

July 20, 1982

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Page. 4

a simpler or "children's" mode, we have the added problem of integrating the two encyclopedias into one system. While I have tended to see this as mainly a problem which would deflect energy from the tasks associated with the design and creation of the intelligent encyclopedia, Steve has convinced me that in struggling to adapt the EB database we will undoubtedly learn a lot of things that will be applicable to the intelligent encyclopedia. In other words it will be a greater challenge to work with EB (and Compton's) but the added effort will be worth it because of its contribution to the final goal.

Along with EB and Compton's, a deal with EB would give us access to the Merriam Webster dictionary which currently outsells all other dictionaries combined.

#### General Orientation

Contrasting EB and WB reminds me of the tortoise and the hare, with EB as the lumbering old tortoise and WB as the flashy hare. Having had the opportunity to see the WB and EB operations side by side I am beginning to see a certain elegance in EB's inexorable plodding. One point they emphasized is that they consider themselves first and last an encyclopedia company. Although I am not sure they are hip to what an encyclopedia company is likely to become in the coming period, this orientation is basically sound. They have a keen sense of what their strengths are (less of their vulnerabilities) and are determined to build on them. A key example of this is their decision to embark on a major revision program for both EB and Compton's. Whatever happens with online encyclopedias over the next ten years, there will still be a substantial market for print versions during that period, and without an up-to-date encyclopedia EB realizes it will be nowhere. Interestingly, it is precisely their well-developed understanding of their strengths that leads them to be so excited now about the deal with Atari. They recognize that Atari's image complements their own quite well and that Atari brings the expertise and resources necessary to help them go into the future standing on their feet. Actually there has been a fundamental change in attitude at EB in the last few weeks. Whereas I used to feel we were dragging them kicking and screaming into the electronic age, they seem to have acquired a certain excitement about the potential of an Atari-EB deal. I definitely get the sense with EB that once the deal is made they are going to give body and soul to make it work.

Although my understanding of WB is not as well developed, I don't get the same sense from them at all. Although

quicker off the dime than EB, they seem to be flailing around, reaching out in several different directions, hoping that something works. At present they are involved in at least 6 different experiments and pilots that I know about - 2 videodisc projects, 3 videotex experiments (WB will be available on Compuserve in August) and a number of microcomputer projects. As far as I know none of these projects is very impressive. Even more disturbing, however, is the seeming lack of a comprehensive plan. They are doing a lot of cheap, fast, easy things, hoping that one will pay off. In fact, except for the high cost of the marketing study they've proposed, the deal with Atari seems to be just another one of these schemes. They hope it works but if it doesn't, "Oh well." I'm sure I'm overstating the case here, but the point is still valid.

Proposals - EB's to us, ours to them

In the course of the Chicago meeting EB made a very exciting proposal. The chief architect of the plan is the new executive vp for sales, Bob Baseman. Baseman is a live wire, a breath of fresh air in all too musty halls. Actually, that's too genteel; he's more like a tornado. Go to central casting and get Swanson's opposite (in every way) - now you've got Baseman. Anyway, once he got warmed up and began to grasp the potential of an Atari-EB relationship for EB he proposed the following sales and marketing arrangement.

For starters EB would like to offer an Atari computer as a premium for the purchase of a set of EB. For example if you buy a set of EB, then for an additional ? dollars you could get an Atari 400 or for an additional ?? dollars you could get an Atari 800. EB would buy the computers from Atari and offer them at a price below their cost to the customer.

As it became available, EB salesmen would sell software for the Atari computer bearing the Britannica name. They would not mind selling non-Britannica software if it were possible to ensure a sufficient profit margin.

EB maintains an active list of 1.2 million EB customers (EB sells over 1 million yearbooks each year) and would attempt to generate sales of Atari products to this group. Also, EB would develop a special sales force to handle school sales of Atari products. Currently EB is not permitted to sell its own products directly to schools and libraries. This is done through EBEC, an entirely separate company which EB does not get along with very well, but to which they are bound by sales agreements. However there is no legal or

July 20, 1982

To Alan Kay from Bob Stein

Page 6

contractual reason why EB can't sell computers to the schools. For EB these school sales are seen as both a very profitable venture and a sure-fire way to generate leads for encyclopedia sales - getting to the parents through the schools.

While there was no indication that EB wants to turn its salesmen loose to sell only computers, they did say specifically that if a customer didn't want to buy an encyclopedia, but did want to buy a computer, they would definitely let the salesman sell the computer alone at a standard retail price. Eventually I would expect computer sales to become a significant portion of EB's business. However, in the absence of any experience on their part, it doesn't make sense to try to convince them of this a priori. If they want to start out by selling computers at less than their cost I think it's great. If it were any other company but EB I might be concerned that offering the 400 as a premium might cheapen our image. With EB this shouldn't be a problem though.

Baseman estimates that in the first full year of this program he will move at least 100,000 computers.

Here's the nifty part. EB would put Atari's name into ALL promotional materials and ads. In addition EB would make Atari a part of all traveling shows and amusement park booths, displaying not only the name but Atari products wherever possible. In other words wherever someone sees the name Britannica in the future they will also see Atari. I don't think we could purchase that sort of quality exposure if we tried. EB would do this as no cost to Atari.

EB does not require a market test. They just want to get going.

While Swanson wasn't at the meeting at which Baseman developed this proposal, Van Doren is confident Swanson will be persuaded. Wanting a check on Van Doren's enthusiasm I called Baseman and asked him if he could sell the idea to Swanson. Baseman said that Swanson had just called him and asked what he should tell Atari. In other words Swanson will go along. I think even he's getting enthusiastic.

Some elements to be included in Atari's proposal to EB:

1. It must be clear from the beginning that whatever deal is made with EB does not prevent us from striking other deals (except with other encyclopedia companies) which might subsume the EB arrangement. (See next section, "The Bigger Picture.") A mechanism would be developed permitting EB to buy into whatever larger venture is created.
2. EB would make available to us on an exclusive basis all EB owned products for adaptation to electronic form. Payment to EB would be in the form of royalties on actual sales.
3. Atari would be consulted and its opinion sought on various matters pertaining to the revision of existing EB products.
4. A mechanism must be developed through which EB can participate in the development of both the short term online encyclopedia and the intelligent encyclopedia.
5. EB would have an exclusive relationship with Atari; ie. Atari would not enter into agreements with any other encyclopedia company and vice versa, EB would not make agreements with other computer hw or sw manufacturers.
6. EB would promote and sell Atari products wherever possible in the international market.
7. EB would put the Atari name onto all promotional materials and involve Atari in all traveling road shows, exhibits, etc.
8. Atari would use its knowledge and resources to help EB develop a line of software that would be exclusive to EB.
- 9.
- 10.

The Bigger Picture

While we can now identify EB as the encyclopedia company to work with, nothing has changed my opinion that EB will not end up the major partner in this venture. There are three principal components to the encyclopedia project (besides large sums of \$) - technology (including hw and system software); the content; and a mechanism for delivery and distribution. Clearly Atari is to be relied on for the technology. The research group will be called on for key technological solutions. With the other two components, content and distribution, Atari will need lots of help.

The content seems like the hardest and biggest job. Far more complex than just assembling and editing articles, creating the intelligent encyclopedia will require a massive pioneering effort in the use of electronic technologies for learning and information retrieval. Clearly EB has neither the resources nor expertise to take on this task by itself, if at all. Put another way, what we are undertaking is akin in some ways to the gigantic effort around the Apollo Moon Shot; obviously not so much in size as in complexity and scope. We will be involving large numbers of people from numerous fields. Following this analogy for a bit, like the space program which spawned countless useful technologies that have since been turned into products and found their way to the industrial and consumer markets, the effort to develop the intelligent encyclopedia will give birth to large numbers of associated products - videodiscs, computer simulations etc. These products can - and given the tremendous developmental costs involved, probably need to - be published and marketed on their own. What this suggests to me is that we should be looking to develop the intelligent encyclopedia in the context of a much larger publishing enterprise which could market a number of the products that are created along the way. In fact, given the tremendous expertise and resources that we are going to bring to bear on these problems, and the state of the art products that we will produce as a result, we are in a position to create one of the largest and most influential publishing companies of the coming era.

Who else we need -

Major University - In order to develop the content we need the resources of a major university. I see the formation of an Atari Institute at Harvard, Stanford etc. which would be responsible for guiding the design, development and then

assembly of the content into its final form. The advantages of locating this work at a major university are that the faculty can function as advisers and consultants, and the undergraduate and graduate students can be a source of relatively inexpensive, capable and enthusiastic labor. I foresee a whole cadre of graduate students devoting their thesis research to solving problems relating directly to the intelligent encyclopedia project.

A Communications Company - Creating the intelligent encyclopedia is one thing. Getting it to the consumer is another. In order to reach the broad numbers we want, we need to work closely with a company which brings this sort of capability to the project. AT&T is an obvious choice, but there are undoubtedly others, perhaps less obvious...

A Publishing Company - We need to consider bringing in a large publishing company which could provide a useful database and a significant distribution network (for products not delivered online). Time-Life with its 5,000,000 photos and numerous films and CBS with its huge TV news archive are both reasonable examples.